

## Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01  
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07  
CEA-01 PA-02 PRS-01 DOE-11 SOE-02 /113 W  
-----106192 312228Z /64

R 312050Z JAN 78  
FM AMEMBASSY SAN JOSE  
TO SECSTATE WASHDC 0067

UNCLAS SECTION 1 OF 2 SAN JOSE 0522

E.O. 11652: N/A  
TAGS: EINV, EIND, EFIN, CS  
SUBJ: UPDATE OF INVESTMENT CLIMATE STATEMENT

REF: 77 STATE 244738

1. THE GENERAL CLIMATE FOR PRIVATE FOREIGN INVESTMENT IS COSTA RICA REMAINS FAVORABLE, WITH THE PUBLIC SECTOR COGNIZANT OF THE CONTRIBUTION THAT THIS TYPE OF INVESTMENT CAN MAKE TO COSTA RICAN DEVELOPMENT. THE PRIMARY ECONOMIC OBJECTIVE OF GOVERNMENT CONTINUES TO BE ECONOMIC DEVELOPMENT COUPLED WITH THE MORE EQUITABLE REDISTRIBUTION OF THE BENEFITS OF DEVELOPMENT. IN THIS CONTEXT, THE GOVERNMENT VIEWS FOREIGN PRIVATE INVESTMENT AS AN EFFECTIVE DEVELOPMENT AND MODERNIZING MECHANISM WHICH MUST, HOWEVER, BE CHanneled AND DIRECTED TO COMPLEMENT AND SUPPORT THE OVERALL DEVELOPMENT STRATEGY OF THE COUNTRY. ACCORDINGLY, THE GOVERNMENT PARTICULARLY ENCOURAGES FOREIGN INVESTMENT IN LIGHT MANUFACTURING, PROCESSED FOODS, AND TOHER LABOR INTENSIVE INDUSTRIES WHICH USE LOCAL RAW MATERIALS AND HACC A HIGH VALUE-ADDED COMPONENT. SINCE APPROXIMATELY HALF OF THE COUNTRY'S POPULATION LIVE OR WORK IN RURAL AREAS, DEVELOPMENT OF A VIABLE AGRO-INDUSTRIAL SECTOR IS RECEIVING MORE GOVERNMENT ATTENTION. OTHER AREAS OF PARTICULAR INTEREST ARE ENTERPRISES THAT DIVERSIFY NOT ONLY THE EXPORT BASE, BUT ALSO EXPORT MARKETS. THE COUNTRY'S BIGGEST MARKETS ARE NOW THE UNITED STATES AND THE REST OF

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CENTRAL AMERICA AND PANAMA; ATTENTION IS NOW STARTING TO TURN TO THE CARIBBEAN ISLAND COUNTRIES.

2. ESSENTIAL INFRASTRUCTURE AREAS SUCH AS UTILITIES, RAILROADS, PETROLEUM REFINING AND DISTRIBUTION, AND THE COMMUNICATIONS MEDIA ARE SECTORS WHERE THE GOVERNMENT HAS MADE IT CLEAR THAT IT DOES NOT WANT PRIVATE DIRECT FOREIGN INVESTMENT. SIMILARLY, THERE IS CON-

SIDERABLE SENSITIVITY TO LARGE SCALE LAND HOLDING BY FOREIGNERS. THE POLICY ON FOREIGN EXPLORATION AND OWNERSHIP OF OTHER NATURAL RESOURCES IS IN A STATE OF FLUX. THE GOVERNMENT IS FORMULATING A NEW MINING CODE THAT WILL REFLECT ITS THINKING IN THIS POTENTIALLY IMPORTANT AREA.

3. PRESIDENTIAL ELECTIONS WILL OCCUR ON FEBRUARY 5 WITH THE NEW GOVERNMENT TAKING OVER ON MAY 8, 1978. PUBLIC PRONOUNCEMENTS OF THE TWO MAJOR PRESIDENTIAL CANDIDATES POINT TO NO CHANGE IN THE POLICY REGARDING FOREIGN INVESTMENT. THE STABLE POLITICAL ENVIRONMENT AND HIGH LEVEL OF ECONOMIC ACTIVITY ATTRACTED A CONSIDERABLE INFLOW OF PRIVATE CAPITAL IN 1977 AND THIS SHOULD CONTINUE IN 1978.

4. THE COSTA RICAN CONSTITUTION GRANTS FOREIGNERS THE SAME RIGHTS AS COSTA RICAN CITIZENS, EXCEPT FOR PARTICIPATION IN POLITICAL

AFFAIRS. THIS CONSTITUTIONAL INJUNCTION IS REFLECTED IN THE BODY OF COSTA RICAN LAW RELATING TO FOREIGN INVESTMENT. OF PARTICULAR INTEREST IS LEGISLATION PROVIDING FOR FISCAL INCENTIVES TO ENCOURAGE INDUSTRIALIZATION AND EXPORTS OF NON-TRADITIONAL PRODUCTS.

5. AS A MEMBER OF THE CENTRAL AMERICAN COMMON MARKET, COSTA RICA HAS A RANGE OF INCENTIVES THAT ARE POTENTIALLY APPLICABLE TO ALL INVESTORS. THESE ARE SPELLED OUT IN THE AGREEMENT ON FISCAL INCENTIVES FOR INDUSTRIAL DEVELOPMENT IN CENTRAL AMERICA WHICH ALLOWS UNCLASSIFIED

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INCOME AND CUSTOMS TAX RELIEF FOR PERIODS OF UP TO TEN YEARS DEPENDING ON THE DEGREE OF REGIONAL VALUE ADDED. THE CENTRAL AMERICAN COMMON MARKET COUNTRIES, LESS HONDURAS, HAVE A JOINT EXTERNAL TARIFF WHICH HAS CREATED A NUMBER OF IMPORT SUBSTITUTION INDUSTRIES SERVING THE AREA. COSTA RICAN TRADE WITH HONDURAS IS COVERED BY A SEPARATE AGREEMENT.

6. INCENTIVES UNDER THE 1972 EXPORT PROMOTION LAW INCLUDE DUTY-FREE TREATMENT OF IMPORTS OF MACHINERY, EQUIPMENT AND RAW MATERIALS, BUT THE PRODUCT EXPORTED MUST HAVE 35 PERCENT LOCAL VALUE ADDED, AND THE PRODUCT HAS TO BE EXPORTED OUTSIDE THE CENTRAL AMERICAN COMMON MARKET AND PANAMA.

7. AN APPARENT DEVIATION FROM THE LONGSTANDING POLICY OF EQUAL TREATMENT OF FOREIGN INVESTMENT OCCURRED TOWARDS THE END OF 1977. THE LEGISLATIVE ASSEMBLY PASSED AN AMENDMENT TO THE EXPORT PROMOTION LAW WHEREBY IN THE FUTURE ONLY THOSE COMPANIES THAT ARE AT LEAST 60 PERCENT COSTA RICAN OWNED WOULD BE ELIGIBLE FOR CERTIFICATION TO RECEIVE EXPORT SUBSIDIES (CAT'S); FOREIGN OWNED COMPANIES PRESENTLY ELIGIBLE ARE NOT AFFECTED. IMPLEMENTING REGULATIONS HAVE NOT YET BEEN PUBLISHED AND THERE IS SOME LIKELIHOOD THAT THE BILL MIGHT BE REVISED DURING THE 1978 SPRING SESSION OF THE

LEGISLATIVE ASSEMBLY.

8. ABOVE ALL, COSTA RICA IS A DEMOCRATIC, LEGALISTIC COUNTRY.  
EXTRA BENEFITS MAY NOT ALWAYS BE EASY TO GET, BUT ONCE GIVEN,  
THE BENEFITS ARE BOTH RESPECTED AND LEGAL.

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9. BECAUSE OF THE HEAVY CONCENTRATION OF INDUSTRY IN THE SAN JOSE  
AREA, THERE ARE INCENTIVES FOR FIRMS TO LOCATE IN THE MORE RURAL  
AREAS. THESE INCLUDE LOWER TAXES, LOWER UTILITY RATES AND EASIER  
FINANCING.

10. INTEREST RATES ARE ESTABLISHED ANNUALLY BY THE CENTRAL BANK,

AND THE RATE VARIES DEPENDING ON THE SECTOR. IN PRACTICE, CREDIT  
FROM THE NATIONAL BANKING SYSTEM IS RATIONED AND IT IS DIFFICULT  
FOR FOREIGN COMPANIES TO OBTAIN LOCAL CURRENCY WORKING CAPITAL  
LOANS; HOWEVER, EXPORT FINANCING LOANS ARE READILY OBTAINABLE,  
AS ARE INVENTORY LOANS.

11. THE LABOR FORCE IS NORMALLY PLENTIFUL, TRAINABLE, AND WELL  
EDUCATED. LOCAL BUSINESSES REPORT THAT THE TURNOVER RATE IS REL-  
ATIVELY LOW IN MOST OCCUPATIONS. THE CURRENT ECONOMIC BOOM HAS  
SERVED TO TIGHTEN THE LABOR MARKET, PARTICULARLY FOR TECHNICALLY  
SKILLED PERSONNEL\* THE MINIMUM WAGE, BY LAW, MUST BE REVISED  
PERIODICALLY; SINCE 1975, IT HAS BEEN REVISED ANNUALLY. THE LAST  
INCREASE, EFFECTIVE JANUARY 1, 1978, AVERAGED 12 PERCENT WHICH  
OUT-PACED THE ESTIMATED 4.3 PERCENT INFLATION RATE OF 1977.

12. MANDATORY PAYROLL TAXES PAID BY THE EMPLOYER NOW TOTAL 18.75  
PERCENT. ALL WORKERS HAVE THE RIGHT TO A TWO-WEEK PAID VACATION  
AFTER WORKING 50 WEEKS. IN DECEMBER, WORKERS RECEIVE EITHER A ONE-

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HALF OR A ONE-MONTH SALARY AS A BONUS, DEPENDING ON THE COMPANY'S ANNUAL NET INCOME. FOREIGNERS CANNOT OCCUPY JOBS FOR WHICH COSTA RICAN LABOR IS AVAILABLE. NO ENTITY CAN HAVE A FOREIGN STAFF GREATER THAN 10 PERCENT OF THE WORK FORCE; THIS STAFF CANNOT EARN MORE THAN 15 PERCENT OF THE TOTAL PAYROLL.

12. THE PUBLIC SECTOR IN COSTA RICA IS LARGE AND GROWING. THE GOVERNMENT HAS A DOMINANT OR MONOPOLY POSITION IN INSURANCE, RAIL TRANSPORTATION, ELECTRIC POWER, PETROLEUM REFINING AND DISTRIBUTION, AND PLAYS A SMALL BUT GROWING ROLE IN RETAIL DISTRIBUTION OF FOOD-STUFFS TO THE POOR THROUGH VILLAGE OR NEIGHBORHOOD STORES OPERATED BY A GOVERNMENT CORPORATION. THE GOVERNMENT ALSO DOMINATES COMMERCIAL BANKING, ALTHOUGH PRIVATE BANKS ARE ALLOWED TO OPERATE SUBJECT TO CERTAIN LAWS AND REGULATIONS AND PLAY A SIGNIFICANT ROLE THROUGH FINANCIAL INTERMEDIARIES (FINANCIERAS). THE GOVERNMENT TOOK OVER COSTA RICA'S ONLY PETROLEUM REFINERY IN 1973, THE PETROLEUM PRODUCTS DISTRIBUTION IN 1975. BOTH ACTIONS WERE ACCOMPLISHED THROUGH A PROCESS OF NEGOTIATION AND COMPENSATION WITH THE COMPANIES INVOLVED. SIMILARLY, EXPROPRIATION OF SOME BANANA LANDS IN 1975 WAS ACCOMPANIED BY A NEGOTIATED COMPENSATION. THE US-OWNED COMPANY ACCEPTED THE COMPENSATION AND STILL OPERATES IN COSTA RICA.

13. AS OF SEPTEMBER 30, 1977, OPIC REPORTED ISSUING INSURANCE POLICIES TOTALING \$30.7 MILLION.  
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## Message Attributes

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